



## **Shifting Belarus' agricultural policy towards measures envisaged by the Green Box**

### **Summary**

Many policy-makers are concerned that Belarus' accession to the WTO will limit its ability to support the agricultural sector. This is not true for the following reasons:

The WTO restricts measures that distort production and/or trade (so-called Red and Yellow Box measures), while measures attributed to the Green Box are not subject to elimination or reduction commitments.

Green Box measures are productivity enhancing and much more efficient than market and price support tools. Thus, by committing themselves to Green Box measures, policy makers can still play an active role in helping the farming sector by making productivity-enhancing investments in rural areas.

Taking into account that Belarus spends less than USD 100 m (or 15-20% of its total agricultural support) on Green Box measures, it has great potential to support its agriculture by expanding these measures, and thus contribute to long term and sustainable agricultural growth.

Furthermore, the lion's share of the Green Box spending in Belarus goes to research and education, while developing infrastructure and extension services has been largely ignored. Investments in the latter should be increased if Belarus really wants to sustain and strengthen the competitive advantages of its agricultural sector and its rural areas.

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## 1. Introduction

Opponents of Belarus' WTO accession sometimes argue that Belarus would surrender too much sovereignty in the area of agricultural policy by joining. In this paper we argue that this is not the case. Even as a WTO member, Belarus would still enjoy a great deal of freedom to support its agricultural sector. WTO regulations limit the use of certain types of support that are wasteful and trade distorting. At the same time they permit members to support agriculture within the framework of the so-called Green Box measures. Green Box measures are exempted from reduction commitments, thus WTO members are completely free to apply them. They are efficient measures that are particularly well suited to fostering sustainable agricultural growth. Thus, by joining the WTO and emphasizing Green Box measures, Belarus could take steps towards establishing favourable conditions for long-term, steady and sustainable agricultural development, the improvement of rural welfare, and the development of market and social infrastructure. Accession to the WTO would improve the prospects for agricultural growth in Belarus by reducing the temptation to implement inefficient market and price support policies, and by focusing attention on Green Box measures that minimize distortions and maximize long run policy benefits for agriculture.

The goal of this paper is to outline the potential for applying Green Box measures to support Belarusian agricultural producers. The paper is structured as follows. Section 2 lists all Green Box measures that can be implemented through publicly funded state programmes or can be financed through planned state funding. Section 3 discusses the importance of Green Box measures for the sustainable development of Belarusian agriculture, and how these measures could be implemented in Belarus. In the concluding section we provide recommendations for the future development of a 'WTO-compatible' agricultural policy in Belarus.

## 2. What is the Green Box?

During previous WTO negotiation rounds, it was agreed to classify agricultural support measures, which might have effects on agricultural production and trade, into three categories. Using a traffic light analogy, these categories were labelled Red Box (measures which are forbidden), Yellow Box (measures which are tolerated but are to be phased out over time through reduction commitments) and Green Box (measures which are not subject to reduction commitments).<sup>1</sup> To qualify, Green Box measures must meet the following criteria:

1. They shall have no or at most minimal effects on production or on distorting trade;
2. The support should be provided through publicly funded government programmes and must not involve transfers from consumers.

Important Green Box measures included in general services are:

1. Research, including general research and research related to particular products, and research connected with environmental protection.
2. Pest and disease control such as early-warning systems, quarantine and eradication.
3. General and specialised training.
4. Extension and advisory services, including transferring information and the results of research to producers and consumers.
5. Inspection services for health, safety and standardization purposes.
6. Marketing and promotion services. Expenditures for purposes that could be used by sellers to reduce their selling price or confer a direct economic benefit to consumers are excluded.

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<sup>1</sup> As a result of a compromise between the EU and the US reached during the Uruguay Round of WTO negotiations, a fourth category, the Blue Box, was created. The Blue Box essentially contains Yellow Box measures that are temporarily exempted from reduction commitments. There are indications that the Blue Box will be sharply curtailed and perhaps even eliminated as a result of the current Doha Round of WTO negotiations.

7. Infrastructure services, including electricity, roads and other transportation means, market and port facilities, water supply facilities, dams and drainage schemes and infrastructure associated with environmental programmes. In all these cases the expenditures should be directed towards providing or constructing capital works only and should exclude the subsidized provision of on-farm facilities.

Beside these support measures, governments may also provide services to agricultural producers through other public programmes. However, all these measures must meet the two prime criteria mentioned above. Such measures and programmes include:

1. Accumulation and holding of stocks of agricultural and food products which form an integral part of a food security programme identified in national legislation. Purchases to and sales from food security stocks should be transparent and made at current market prices.
2. Support of the low-income population through subsidized prices or food stamps. Such aid should be directly targeted payments. Food purchases by the government should be made at current market prices.
3. Direct payments (both in cash and in kind) to producers to support their incomes. These payments should have no or minimal trade or production distorting effects, they should be made through publicly funded government programmes and they should not be in connection with any price support scheme.
4. Indirect income support that is not related to production or prices;
5. Government financial participation in income insurance and income safety-net programmes. These programmes should not be related to production or prices.
6. Government participation in crop insurance schemes for relief from natural disasters.
7. Structural adjustment assistance provided through producer retirement programmes.
8. Payments under environmental programmes.
9. Payments related to assistance programmes for farms located in regions with unfavourable weather conditions. These programmes may not be related to production or prices.

Thus, a wide variety of agricultural support measures are permitted by the WTO. Slowly but surely, the trend in agricultural policy in most WTO member countries is to emphasize the use of Green Box measures and to reduce the use of 'traditional' market and price support (MPS) tools, such as intervention systems and various input and output subsidies. In the EU, for example, MPS accounted for 91% of all support to agriculture in 1986-88, but this share fell to 61% in 2000-02. The 'Fischler Reform' of the EU's agricultural policy, which was adopted in June 2003, will further significantly reduce the share of MPS, probably to considerably below 40%, by 'decoupling' payments to farmers, i.e. making them independent of production.

Why are countries such as the EU moving away from MPS and towards the Green Box? Three main reasons play a role, and all three are very pertinent to the situation in Belarus today.

**First**, agricultural MPS distorts production and trade. This unfairly damages the interests of trading partners and leads to trade disputes that threaten to spill over to other sectors of the economy. Hence, disciplining agricultural policy is necessary as a means of stabilizing and improving international trade relations. In the case of Belarus, some members of the farm lobby seem prepared to sacrifice WTO membership to defend Belarus' 'right' to freely implement MPS policies in agriculture, without considering the impact that this would have on Belarus' trade relations as a whole and, hence, its overall prospects for continued economic growth. Belarus is geographically 'sandwiched' between agricultural 'giants' (Russia, Ukraine and as of May 1, 2004, the expanded EU), so the importance of WTO membership as a means of ensuring that it receives fair treatment in its international dealings cannot be underestimated.

**Second**, it is well documented that agricultural MPS is a highly inefficient way of helping agricultural producers. The OECD has recently published detailed analyses that demonstrate

just how inefficient MPS can be<sup>2</sup>. For example, using price support measures such as the intervention price system (something that many agricultural policy makers in Belarus advocate) typically requires taking 3 to 4 roubles away from consumers and taxpayers in order to increase farm incomes by one rouble<sup>3</sup>. Income support payments that are not linked to prices or production (i.e. Green Box support) are much more efficient, with roughly 90% of each rouble that is taken away from consumers and taxpayers ending up in the pockets of agricultural producers. In other words, even if it did not threaten to damage international trade relations and compromise Belarus' bid to join the WTO, policy makers would be well advised to eschew MSP simply because it is 'bad' policy. Experience in Belarus itself shows that significant direct and indirect subsidies to agriculture (for example by permitting debts to remain outstanding, debts which now total roughly USD 1 bn, or 7% of Belarus' GDP) do not necessarily lead to increased productivity and efficiency; on the contrary, the sector continues to shrink while the share of loss-making enterprises grows.

**Third**, and lastly, it is increasingly recognized that Green Box measures are the best way to help agriculture grow in a sustainable manner. MPS generally aims at boosting agricultural incomes, but this does not necessarily help to create a robust, competitive agricultural sector over the long run. The EU is an excellent example: After decades of exceedingly expensive MPS, much of the EU's agriculture remains inefficient and dependent on continued support. The difference between MPS and Green Box measures is perhaps best described as the difference between spending money on consumption (i.e. for short term satisfaction) and spending on investment (i.e. for long term gain). Green Box measures – especially those related to education, training, research and extension – are investments, and this is, in our opinion, what responsible policy makers should focus on.

Of course, MPS is addictive. Countries such as the EU cannot eliminate these policies overnight, because farmers have become accustomed to them and the artificial economic 'success' that they create. So the process of reform – turning away from MPS and towards the Green Box – is slow. Some rich countries with little comparative advantage in agriculture (Japan, Norway and Switzerland, for example) insist on their need to continue with agricultural policies based on MPS. But in the major agricultural exporting nations of the world (such as Australia, Canada, the EU and the USA), the move towards Green Box measures is clear and irreversible, encouraged by the need to reduce budget spending on agriculture and the WTO process. Belarusian agricultural policy makers still have the historic opportunity to avoid addiction to MPS and embark today on the sort of agricultural policy path that most other countries are struggling to regain.

### **3. Application of Green Box measures within Belarus**

What is the current status of Green Box measures within Belarus' agricultural policy today? It is unlikely that government spending on agriculture can be increased in the near future, which underlines the need for better and more efficient allocations of the limited resources available. It is vital that the government identify policies that will strengthen the responsiveness of the agricultural sector to market signals, maximize sustainable growth and minimize trade distortions.

As outlined above, the Green Box contains a wide range of agricultural policy measures. In the following we discuss the importance of these measures to contributing to the long-term, steady and sustainable development of Belarusian agriculture, and review the trends in government spending on these measures in recent years (see Table 1).

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<sup>2</sup> For a detailed description see the previous study by GET "Subsidizing Agriculture in Belarus: Declared Objective and Actual Outcomes"

<sup>3</sup> Research done in OECD countries proves this fact. For more detail see the study of the German Economic Team in Belarus, "Subsidizing Agriculture in Belarus: Declared Objective and Actual Outcomes", PP/4/03, October 2003

## **Agricultural science and education (expenses for scientific and educational institutions, research and improvement of professional skills)**

Agricultural research plays an important role in driving cost-reducing technological change and in providing high yield and disease resistant crop varieties that will lead to increased food supplies, and consequently, to lower food prices for consumers. In Belarus, production technology often lags behind international standards and many technologies that are successful in other countries have not yet been fully adapted to Belarus' unique domestic conditions.

This includes budget expenditures for the maintenance of educational establishments with an agrarian profile, including training and experimental facilities, central financing of structural units of the Agrarian Academy of Science: research institutes, experimental bases and stations, as well as financing training and improving the professional skills of human resources in agriculture. The National Academy of Agrarian Science (consisting of 16 institutes, 6 specialized and experimental stations and a library) carries out a major part of this research. More research is performed at the universities.

Educating good specialists and managers for the agricultural sector is vital for increasing agricultural growth. Experience shows that farmers with higher education achieve higher yields, because they employ more appropriate production methods. Furthermore, education contributes to rural poverty alleviation, since it gives rural residents improved opportunities for off-farm employment. In 1997-99 these were the most important of all Green Box measures implemented in Belarus, constituting about 10% of the total agricultural support (Table 1).

### **State targeted programmes**

Two such programmes executed in 1997-99 met the Green Box criteria, in particular the programmes "Fruit growing" and "Protection and rational use of earth soils". The "Fruit growing" programme was to create an inventory of all gardens in the country, carry out an examination of lands in order to define which are appropriate for gardening, and develop production facilities of agricultural enterprises that produce high quality planting stock. The "Protection and rational use of earth soils" programme was to improve the system of cadastre and land monitoring, and to record the structure of crop growing areas, the melioration of land, the use of forests, the state of water conservation districts, the reclamation of damaged and polluted lands, including the protection of soils from erosion, and the conservation and reclamation of lands polluted with radioactive materials.

2002 spending on programmes that can be attributed to the Green Box included: "Cattle breeding", "Selection and seed-breeding", "Tuberculosis". Spending for two other programmes "Melioration" and "Support of 12 districts" is also included in Table 1.

### **Investments**

This item unites financing for the construction of melioration and water maintenance facilities, with non-production construction (electric and gas facilities, and roads for internal use in agricultural enterprises). About one third of the agricultural land area in Belarus is situated in meliorated lands. The area of meliorated land that requires repair of the melioration facilities increases by 30-40 thousands hectares each year. As the data for 1999 show, 22% of the melioration channels are covered with bushes, 43% of the dams require renovation. In Table 1, only capital investments by the central government such as expenditures on reconstructing and renovating melioration systems, and starting-up production of maintenance and repair machinery are classified as Green Box measures.

Investment in infrastructure should enable agricultural enterprises to increase their returns by lowering transaction costs, and to increase productivity due to better access to and availability of inputs. Rural infrastructure also has a poverty alleviation effect due to improved non-farm employment opportunities.

### **Cattle disease and pest control**

Animal disease control measures are crucial for ensuring animal health and, therefore, for protecting people from dangerous diseases, in particular those that are common to both humans and animals. It is well known that medicine cures people, while veterinary medicine heals mankind. Under-investment in the development of early warning systems can result in

huge losses to society as a whole. For example, losses in England due to the recent outbreaks of foot-and-mouth and mad cow diseases amounted to roughly USD 32 and 12 bn respectively; hog cholera costs in Holland amounted to USD 4,5 bn<sup>4</sup>. Pest control measures are crucial to ensure high yields for agricultural crops, and consequently higher farm incomes. This article includes expenditures for anti-epizootic and quarantine activities as well as for the recovery of livestock numbers after such activities. For instance, the state assigned 100 bn BRB in 1998 for curing cattle leucosis and dermatosis.

### **Liming of acid soils and increasing use of mineral fertilizers and microelements on agricultural lands in areas affected by contamination from nuclear accidents**

The state finances the liming of soils in areas affected by contamination from nuclear accidents. This, together with increased doses of mineral fertilizers and microelements, develops protective attributes in the plants and helps farmers to produce ecologically safe food products.

The state covers the cost of liming fertilizers, full transportation costs, the cost of introducing these fertilizers into the soil as well as the preparation costs. This article is the second biggest of all Green Box measures in Belarus: its share in total agricultural support varied from 2.4% to 5.7% for the years 1997 to 1999 and 2002 (Table 1).

### **Compensation for the cost of storing the public grain stock**

Creating public food stocks falls under point 3 of appendix 2 of the WTO Agreement on Agriculture (Green Box). The aim of public food stock creation is to stabilize the supply of agricultural products (food, seeds, feedstuffs) in case of natural disasters and other acts of God. Only minimal expenditures were made between 1997 and 1999 on the creation of public grain stocks. This was the most under-executed item in 2002: only BYR 217.3 m of the BYR 1444 m allocated were actually spent (15%).

### **Support of private farming**

There are very few private farms in Belarus; their current number is 2500. Private farmers occupy only 1% of all agricultural land and produce 1% of all agricultural products. A structural reform of Belarusian agriculture and the development of private farming are of critical importance for the national agrarian sector. Supporting private farming meets the criteria of point 6 and 11 of Annex 2 of Agreement on Agriculture if it is decoupled from production expenditure (construction of roads, gas, water and electricity facilities). This item also includes expenditures for the structural reform of agriculture. At this time, this article is one of the smallest Green Box items in Belarus, having fallen from USD 3 m in 1997 to just USD 170 thousand in 2002.

### **Support for regions with less favourable climatic, ecological and economic conditions**

Based on Regulation # 514 of the Council of Ministers issued on 1 April 1998: "On high-priority measures to be undertaken to accelerate development of districts with less favourable climatic, ecological and economic conditions", financial support was granted to 12 districts – Bierazino, Brahın, Hancevıcy, Haradok, Iwje, Krasnapolıe, Lıelcycy, Lıozna, Pıetrykaw, Sıanno, Slawharad, Cerykaw. This support covers:

1. Improved crop varieties (providing farms with high productivity seed varieties),
2. Introduction of mineral fertilizers, liming of acid soils and pest control,
3. Building of meliorating facilities,
4. Provision with agricultural machines,
5. Re-equipment of dairy farms,
6. Improving breeds and the quality of cattle.

Spending on this item took place up to 2000 from the central "Fund for supporting producers of agricultural products". Grants amounted to BYR 243 bn in 1998, BYR 515 bn in 1999 and

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<sup>4</sup> See " Shifting agricultural policy towards measures envisaged by the Green Box " written by the German Advisory Group on Economic Reform with the Government of Ukraine, Policy Paper T6, September 2003.

BYR 3544 m in 2000<sup>5</sup>. Since 2001 expenditures have been made under a special state programme and have dropped considerably: from USD 5.7 m in 1998 to just USD 860 thousand in 2002.

## Summary

Table 1 summarises government spending on Green Box measures within the Belarusian agricultural sector in 1997-99 and in 2002.

**Table 1. Spending on Green Box measures within the Belarusian agricultural sector (1997-1998 and 2002)**

	1997		1998		1999		2002	
	m USD	%	m USD	%	m USD	%	m USD	%
1. General services								
1.1 Agricultural science and education*	30.85	4.4	47.93	7.1	44.68	10.2	0.36	0.1
1.2 State targeted programmes**	10.68	1.5	1.83	0.3	0.65	0.1	3.10	0.8
1.3 Construction of melioration and water-maintenance facilities, non-production construction	33.09	4.7	12.55	1.9	4.65	1.1	9.67	2.5
1.5 Cattle disease and pest control	10.6	1.5	5.87	0.9	3.14	0.7	9.76	2.5
2. Environmental programmes								
2.1 Increased use of mineral fertilizers and microelements on agricultural lands in areas affected by contamination resulting from nuclear accidents	6.44	0.6	4.82	0.4	—	—	-	-
2.2 Liming of acid soils	33.48	4.7	24.06	3.6	10.45	2.4	21.96	5.7
3. State security programmes								
3.1 Compensation for the expenses of storing public grain stocks	—	—	1	0.1	0.15	0.0	0.12	0.0
4. Decoupled income support measures								
4.1 Support of a farming	3.01	0.4	2.13	0.3	0.73	0.2	0.17	0.0
5. Disaster assistance								
5.1 Compensation to collective farms which suffered from natural disasters	0.08	0.0	—	—	4.37	1.0	—	—
6. Regional assistance programmes								
6.1 The support of regions having less favourable climatic, ecological and economic conditions	—	—	5.57	0.8	3.66	0.8	0.86	0.2
<b>Total Green Box</b>	<b>128.23</b>	<b>18.1</b>	<b>105.76</b>	<b>15.7</b>	<b>72.48</b>	<b>16.5</b>	<b>46.00</b>	<b>11.9</b>
<b>Total AMS</b>	<b>707.02</b>	<b>100.0</b>	<b>673.46</b>	<b>100.0</b>	<b>438.61</b>	<b>100.0</b>	<b>387.50</b>	<b>100.0</b>

Source: Own calculations on the basis of State Budget data and data provided by the Institute of Agrarian Economy

\* The data for 2002 includes only the amount of expenditures made from the central "Fund for supporting producers of agricultural products", which is a minor part of all spending on agrarian science and research.

\*\* The lists of programmes for 1997-99 and for 2002 were different (see the text above)

Public spending on Green Box measures as a percentage of total agricultural support in Belarus was 16.5% in 1999. Unfortunately data on spending on agrarian science and education in 2002 are not available. If it remained at the level of earlier years – about 10% of all agricultural support – then Green Box measures exceeded 20% of the total agricultural support in 2002.

Clearly there is considerable scope for increasing Green Box spending for agriculture in Belarus, even within the current constrained fiscal environment, by shifting some of the remaining roughly 80% of agricultural support spending to the Green Box. In the past, it appears that most Green Box expenditure in Belarus had been allocated to agricultural education and research. However, crucial investments for extension and advisory services, infrastructure and the implementation of land reform have been largely ignored. Furthermore, actual spending consistently lags behind appropriations. Some measures were badly under-executed in 2002, for example the support of 12 districts (only 63% of the assigned funds were actually spent), the support of farmers (55.9%), and so on.

<sup>5</sup> On January 1, 2002 the Belarusian rouble was re-denominated (at a rate of 1 new to 1000 old roubles).

#### **4. Conclusions and recommendations**

Accession to the WTO would not reduce Belarus' ability to support its agricultural sector. As a WTO member, Belarus would still be free to implement the entire range of Green Box measures, as these are exempted from reduction commitments under the WTO. Green Box measures provide policy makers with a means of providing lasting support to agriculture and agricultural growth in a way that does not distort trade and generate conflicts with trade partners.

The worldwide trend in agricultural policy is towards the increasing use of Green Box measures, as the cost and difficulties associated with market and price support become clear. Belarusian policy makers should be aware of these difficulties and not take an idealized view of market and price support in countries such as the EU. Scarce fiscal resources should be invested in the future of agriculture, not spent on propping up the past, and Green Box measures provide an ideal vehicle for investments in the know-how, technology, management skills and infrastructure that Belarusian agriculture will need to be competitive in the coming decades.

The amount of money spent on Green Box measures in 1999 in Belarus was roughly USD 72.5 m. In 2002 expenditures on Green Box in Belarus amounted to roughly 20% of total agricultural support. The share of Green Box spending in total agricultural support therefore appears to be more or less constant over time (15 to 18% in 1997-99). Compared to total agricultural spending in Belarus (around USD 0.5 bn annually), and compared to the huge need for investment in Belarusian agriculture, Green Box spending remains relatively small. It should be increased, and the corresponding measures should be fully implemented. In particular increased emphasis should be given to extension services, rural infrastructure and the implementation of land reform.

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